

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Hudsonville	County Ottawa
Fiscal Year End June 30, 2007	Opinion Date October 26, 2007	Date Audit Report Submitted to State November 14, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

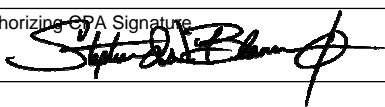
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100	
Street Address 2330 East Paris Avenue SE		City Grand Rapids	State MI
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	Zip 49546
		License Number	24801

**CITY OF HUDSONVILLE  
HUDSONVILLE, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

# CITY OF HUDSONVILLE

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

## INDEPENDENT AUDITORS' REPORT

October 26, 2007

Honorable Mayor and  
Members of the City Commission  
City of Hudsonville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hudsonville, Michigan (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Hudsonville, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Hudsonville, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007 on our consideration of the City of Hudsonville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudsonville's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Hudsonville's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the City of Hudsonville, we offer readers of the City of Hudsonville's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- This was the first full year of contracting with Ottawa County Sheriff's department. The success has been great and the Ottawa County Sheriff's department has been a good fit for the City of Hudsonville.
- Our obligations to the former Hudsonville Police Officers, other than retirement, are finished as of 12/31/07.
- The Gary Byker Library of Hudsonville developed a problem with water and a drainage system needed to be installed in the basement. The damaged property will be covered by insurance however the responsibility of the installation of the drainage system is in discussion at this time.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hudsonville's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Hudsonville that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.



The government-wide financial statements include not only the City of Hudsonville itself (known as the *primary government*), but also a legally separate Tax Increment Finance Authority, Local Development Finance Authority, and Downtown Development Authority for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hudsonville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Public Improvement Fund which are considered to be major funds. Data from the other twenty governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-20 of this report.

**Proprietary funds.** The City of Hudsonville maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hudsonville uses enterprise funds to account for its sewer and water operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses internal service funds to account for its fleet of vehicles, compensated absences, fire equipment and insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operation, of which both are considered to be major funds of the City of Hudsonville.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statement can be found on page 24 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-37 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 38-52 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hudsonville, assets exceeded liabilities by \$13,842,572 at the close of the most recent fiscal year.

A portion of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Hudsonville's Net Assets

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>						
Current and other assets	\$ 3,838,045	\$ 3,067,700	\$ 2,162,405	\$ 2,105,133	\$ 6,000,450	\$ 5,172,833
Capital assets, net	7,896,558	8,130,861	6,153,848	5,724,243	14,050,406	13,855,104
Total assets	11,734,603	11,198,561	8,316,253	7,829,376	20,050,856	19,027,937
<b>Liabilities</b>						
Long-term liabilities	4,539,451	4,917,741	1,287,326	952,890	5,826,777	5,870,631
Other liabilities	210,401	222,964	171,106	245,156	381,507	468,120
Total liabilities	4,749,852	5,140,705	1,458,432	1,198,046	6,208,284	6,338,751
<b>Net assets</b>						
Invested in capital assets, net of related debt	3,389,062	3,257,553	4,866,522	4,771,353	8,255,584	8,028,906
Restricted	1,962,348	1,007,370	57,500	-	2,019,848	1,007,370
Unrestricted	1,633,341	1,792,933	1,933,799	1,859,977	3,567,140	3,652,910
Total net assets	\$ 6,984,751	\$ 6,057,856	\$ 6,857,821	\$ 6,631,330	\$ 13,842,572	\$ 12,689,186

Net assets of the City increased by \$1,046,889. The governmental activities increase in net assets of \$926,895 is primarily the result of personnel cuts and the contracting of public safety services with Ottawa County.

### City of Hudsonville's Changes in Net Assets

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 341,869	\$ 331,953	\$ 1,503,992	\$ 1,507,546	\$ 1,845,861	\$ 1,839,499
Operating grants and contributions	472,763	523,549	-	-	472,763	523,549
Capital grants and contributions	14	279	-	-	14	279
General revenues:						
Property taxes	2,376,468	2,466,803	-	-	2,376,468	2,466,803
Other governmental sources	589,038	604,090	-	-	589,038	604,090
Unrestricted investment earnings	218,536	128,886	54,264	59,205	272,800	188,091
Gain on sale of capital assets	42,456	-	-	-	42,456	-
Miscellaneous revenues	66,368	54,112	16,783	6,933	83,151	61,045
Total revenues	4,107,512	4,109,672	1,575,039	1,573,684	5,682,551	5,683,356

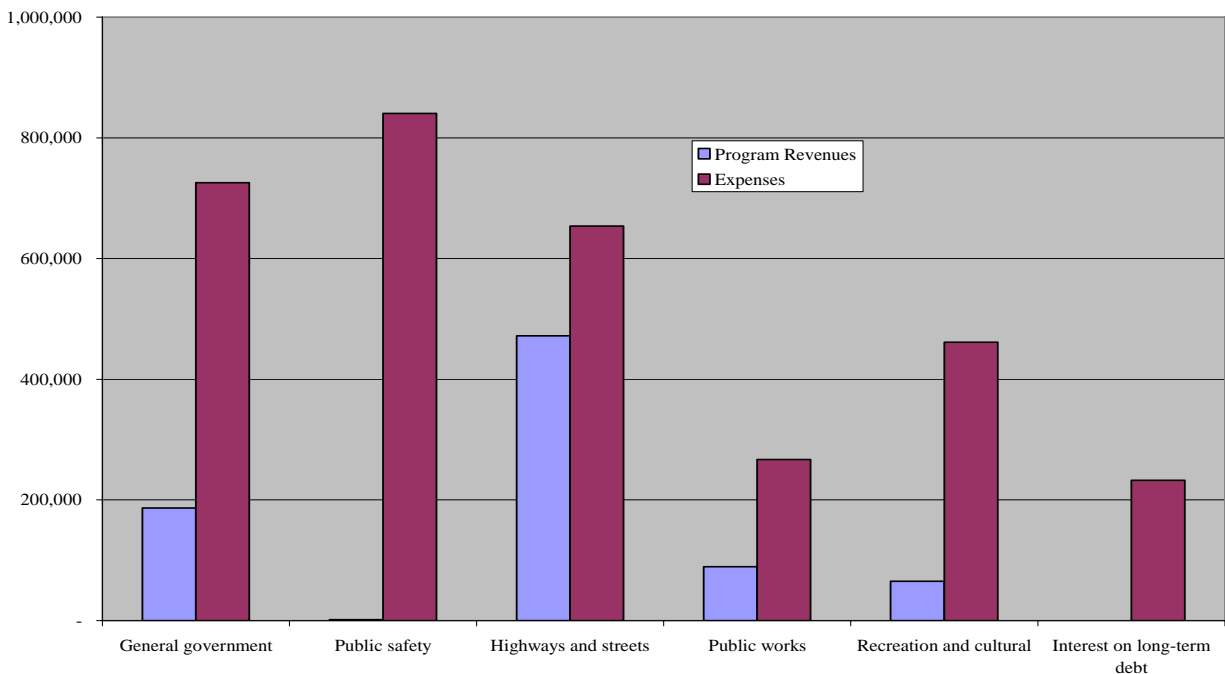
## City of Hudsonville's Changes in Net Assets (Continued)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Expenses</b>						
General government	\$ 725,688	\$ 698,351	\$ -	\$ -	\$ 725,688	\$ 698,351
Public safety	840,480	1,032,331	-	-	840,480	1,032,331
Highways and streets	653,880	651,967	-	-	653,880	651,967
Public works	266,921	290,319	-	-	266,921	290,319
Recreation and cultural	461,238	503,300	-	-	461,238	503,300
Interest on long-term debt	232,410	249,141	-	-	232,410	249,141
Sewer	-	-	833,692	820,917	833,692	820,917
Water	-	-	621,353	692,947	621,353	692,947
Total expenses	<u>3,180,617</u>	<u>3,425,409</u>	<u>1,455,045</u>	<u>1,513,864</u>	<u>4,635,662</u>	<u>4,939,273</u>
Change in net assets	926,895	684,263	119,994	59,820	1,046,889	744,083
Net assets, beginning of year, as restated	<u>6,057,856</u>	<u>5,373,593</u>	<u>6,737,827</u>	<u>6,678,007</u>	<u>12,795,683</u>	<u>12,051,600</u>
<b>Net assets, end of year</b>	<u><u>\$ 6,984,751</u></u>	<u><u>\$ 6,057,856</u></u>	<u><u>\$ 6,857,821</u></u>	<u><u>\$ 6,737,827</u></u>	<u><u>\$ 13,842,572</u></u>	<u><u>\$ 12,795,683</u></u>

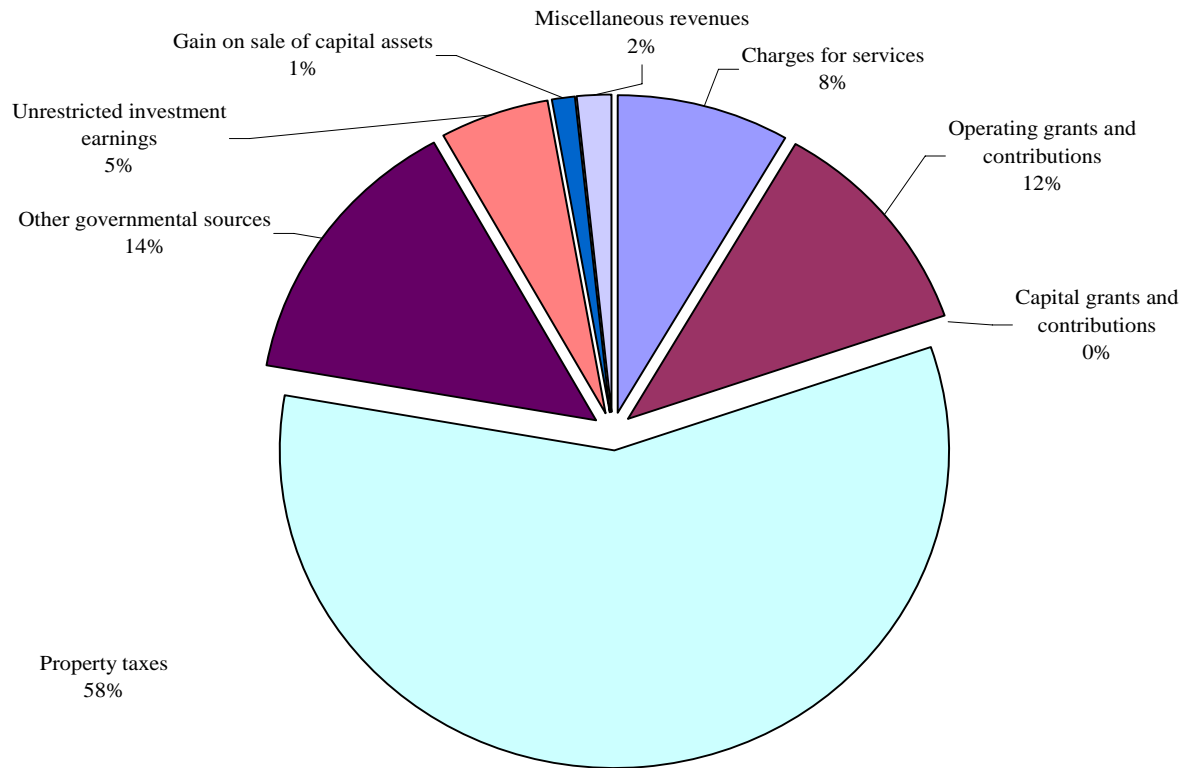
### Governmental activities

During the year, the City continued its emphasis in public safety by investing \$840,480 or 26% of governmental activities expenses. General government was \$725,688, or 23% of governmental activities expenses, while highways and streets, public works, recreation and cultural, and interest on long-term debt made up the remaining 51% of governmental activities expenses.

**Expenses and Program Revenues - Governmental Activities**



### Revenues by Source - Governmental Activities



**Business-type activities.** Business-type activities increased the City's net assets by \$119,994. By comparison, business-type activities reported an increase in net assets the previous fiscal year of \$59,820. Key elements of this increase are as follows:

- Slight increases in water and sewer rates
- A growing population of utility service users

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,809,212, an increase of \$742,245, in comparison with the prior year. Approximately 99% of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to generate income for library purposes (\$27,973), or 2) for prepaid items (\$4,152).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$896,111. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 29 percent of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$74,290 during the current fiscal year. This is primarily attributable to downsizing of personnel and contracting with the county for public safety services.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$984,085 and \$943,838, respectively. The sewer fund had a decrease in net assets for the year of \$(68,159) and the water fund had an increase of \$188,153. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

The General Fund received extra miscellaneous revenues from the sale of some of the small equipment that was used in the Police Department. The General Fund miscellaneous expenditures increased because of the purchase of a small parcel of land from the Hudsonville Co-op. This parcel will be part of our new construction of a Department of Public Works Building on our current city property.

Expenditures in the police department exceeded budgeted amounts due to 1) the advanced funding of benefits when the City's police department was transferred to Ottawa County, 2) a \$43,895 advance that was made to Ottawa County to start the police department, and 3) purchases of equipment.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$14,050,406 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, and machinery and equipment. The City's investment in capital assets for the current fiscal year a 2.9 percent decrease for governmental activities and a 7.5 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Sunrise Park improvements
- Allen and Oak Street water main project completed
- Playground equipment
- Several new computers for the library and city hall

**City of Hudsonville Capital Assets**  
(net of depreciation)

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b><u>Activities</u></b>		<b><u>Activities</u></b>			
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Land	\$3,050,382	\$3,059,582	\$ 39,936	\$ 39,936	\$ 3,090,318	\$ 3,099,518
Construction in progress	2,026	-	148,207	-	150,233	-
Land improvements	792,756	759,352	-	-	792,756	759,352
Buildings and system improvements	2,721,306	2,939,246	5,965,705	5,684,307	8,687,011	8,623,553
Machinery and equipment	1,253,385	1,326,084	-	-	1,253,385	1,326,084
Office furniture and equipment	76,703	46,597	-	-	76,703	46,597
<b>Total</b>	<b><u>\$7,896,558</u></b>	<b><u>\$8,130,861</u></b>	<b><u>\$6,153,848</u></b>	<b><u>\$5,724,243</u></b>	<b><u>\$14,050,406</u></b>	<b><u>\$13,855,104</u></b>

Additional information on the City of Hudsonville capital assets can be found in Note 4 on pages 34 and 35 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$5,826,777. Of this amount, \$1,287,326 was debt of business activities and \$4,539,451 was debt of governmental activities.

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b><u>Activities</u></b>		<b><u>Activities</u></b>			
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Accrued employee benefits	\$ 31,955	\$ 44,433	\$ -	\$ -	\$ 31,955	\$ 44,433
Bonds and notes payable	4,507,496	4,873,308	1,287,326	952,890	5,794,822	5,826,198
<b>Total</b>	<b><u>\$4,539,451</u></b>	<b><u>\$4,917,741</u></b>	<b><u>\$1,287,326</u></b>	<b><u>\$952,890</u></b>	<b><u>\$5,826,777</u></b>	<b><u>\$5,870,631</u></b>

The City's total debt decreased by \$43,854 (less than 1 percent) during the current fiscal year.

The City is currently not rated for general obligation bond issuance.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$22,008,852, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 7 on pages 36 and 37 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year:

- The City of Hudsonville did not want to increase its millage rate.
- The City is saving money in a Public Improvement Fund to pay for its new Department of Public Works facility that should be constructed in the 2007-08 fiscal year.
- The water rates were increased significantly to fund the Wyoming Clean Water Plant Improvements.
- Michigan's economy is in dire straits and many of our residents are out of work.
- Payments for taxes and water bills are being returned for insufficient funds.
- Revenue sharing is unknown.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 3275 Central Boulevard, Hudsonville, MI 49426-1450.



## **BASIC FINANCIAL STATEMENTS**

# CITY OF HUDSONVILLE

## Statement of Net Assets

June 30, 2007

	<b>Primary Government</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Assets</b>				
Cash and pooled investments	\$ 3,376,340	\$ 1,250,407	\$ 4,626,747	\$ 1,325,992
Restricted cash and pooled investments	27,973	57,500	85,473	-
Deposit with Ottawa County	-	261,389	261,389	-
Receivables:				
Accounts	4,885	556,566	561,451	-
Taxes	27,377	-	27,377	-
Special assessments	50,990	-	50,990	-
Accrued interest	33,082	10,908	43,990	13,086
Due from other governments	302,932	-	302,932	-
Inventory	-	25,635	25,635	-
Prepays	14,466	-	14,466	-
Capital assets not being depreciated	3,052,408	188,143	3,240,551	-
Capital assets being depreciated, net	4,844,150	5,965,705	10,809,855	-
<b>Total assets</b>	<b>11,734,603</b>	<b>8,316,253</b>	<b>20,050,856</b>	<b>1,339,078</b>
<b>Liabilities</b>				
Accounts payable	103,755	149,813	253,568	123
Accrued wages	51,477	4,659	56,136	-
Accrued interest	55,169	16,634	71,803	16,610
Noncurrent liabilities:				
Unamortized discount on revenue bonds	-	5,876	5,876	-
Due within one year	425,578	60,000	485,578	215,000
Due in more than one year	4,113,873	1,221,450	5,335,323	1,090,000
<b>Total liabilities</b>	<b>4,749,852</b>	<b>1,458,432</b>	<b>6,208,284</b>	<b>1,321,733</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	3,389,062	4,866,522	8,255,584	-
Restricted for:				
Library	107,076	-	107,076	-
Library endowment	27,973	-	27,973	-
Highways and streets	315,339	-	315,339	-
Capital projects	1,511,960	-	1,511,960	-
Debt service	-	57,500	57,500	-
Unrestricted	1,633,341	1,933,799	3,567,140	17,345
<b>Total net assets</b>	<b>\$ 6,984,751</b>	<b>\$ 6,857,821</b>	<b>\$ 13,842,572</b>	<b>\$ 17,345</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue	
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions		
<b>Primary government</b>						
Governmental activities:						
General government	\$ 725,688	\$ 186,700	\$ -	\$ -	\$ -	(538,988)
Public safety	840,480	1,723	-	-	-	(838,757)
Highways and streets	653,880	2,480	469,165		14	(182,221)
Public works	266,921	89,291	-		-	(177,630)
Recreation and cultural	461,238	61,675	3,598		-	(395,965)
Interest on long-term debt	232,410	-	-		-	(232,410)
Total governmental activities	3,180,617	341,869	472,763		14	(2,365,971)
Business-type activities:						
Sewer	833,692	715,158	-		-	(118,534)
Water	621,353	788,834	-		-	167,481
Total business-type activities	1,455,045	1,503,992	-		-	48,947
Total primary government	\$ 4,635,662	\$ 1,845,861	\$ 472,763	\$ 14	\$ -	(2,317,024)
<b>Component units</b>						
Tax Increment Finance Authority	\$ 93,659	\$ -	\$ -	\$ -	\$ -	(93,659)
Local Development Finance Authority	65,537	-	-		-	(65,537)
Downtown Development Authority	27,918	-	-		-	(27,918)
Total component units	\$ 187,114	\$ -	\$ -	\$ -	\$ -	(187,114)

(Continued)

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Statement of Activities (Continued)**  
**For the Year Ended June 30, 2007**

<b>Functions/Programs</b>	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
Changes in net assets				
Net (expense) revenue	\$ (2,365,971)	\$ 48,947	\$ (2,317,024)	\$ (187,114)
General revenues:				
Property taxes	2,376,468	-	2,376,468	607,676
Other governmental sources	589,038	-	589,038	-
Unrestricted investment earnings	218,536	54,264	272,800	66,791
Gain on sale of capital assets	42,456	-	42,456	-
Miscellaneous revenues	66,368	16,783	83,151	2,314
Total general revenues	3,292,866	71,047	3,363,913	676,781
Change in net assets	926,895	119,994	1,046,889	489,667
Net assets (deficit), beginning of year, as restated	6,057,856	6,737,827	12,795,683	(472,322)
<b>Net assets, end of year</b>	<b>\$ 6,984,751</b>	<b>\$ 6,857,821</b>	<b>\$ 13,842,572</b>	<b>\$ 17,345</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF HUDSONVILLE

## Balance Sheet Governmental Funds June 30, 2007

	<u>General</u>	<u>Public Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and pooled investments	\$ 759,521	\$ 1,405,598	\$ 391,969	\$ 2,557,088
Restricted cash and pooled investments	-	-	27,973	27,973
Receivables:				
Accounts	4,016	-	869	4,885
Taxes	27,377	-	-	27,377
Special assessments	-	-	50,990	50,990
Accrued interest	14,091	7,259	3,705	25,055
Due from other governments	191,718	-	111,214	302,932
Prepays	4,152	-	-	4,152
<b>Total assets</b>	<u>\$ 1,000,875</u>	<u>\$ 1,412,857</u>	<u>\$ 586,720</u>	<u>\$ 3,000,452</u>
<b>Liabilities</b>				
Accounts payable	\$ 71,961	\$ -	\$ 25,779	\$ 97,740
Accrued wages	32,803	-	9,707	42,510
Deferred revenue	-	-	50,990	50,990
<b>Total liabilities</b>	<u>104,764</u>	<u>-</u>	<u>86,476</u>	<u>191,240</u>
<b>Fund balances</b>				
Reserved for library endowment	-	-	27,973	27,973
Reserved for prepaids	4,152	-	-	4,152
Unreserved:				
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	422,687	422,687
Debt service funds	-	-	1,471	1,471
Capital projects funds	-	-	48,113	48,113
Undesignated	891,959	1,412,857	-	2,304,816
<b>Total fund balances</b>	<u>896,111</u>	<u>1,412,857</u>	<u>500,244</u>	<u>2,809,212</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,000,875</u>	<u>\$ 1,412,857</u>	<u>\$ 586,720</u>	<u>\$ 3,000,452</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to the Net Assets of Governmental**  
**Activities on the Statement of Net Assets**  
**June 30, 2007**

Fund balances - total governmental funds	\$ 2,809,212
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	3,052,408
Add - capital assets being depreciated, net	3,846,649

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the fund

Add - deferred special assessments receivable	50,990
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of internal service funds are included in governmental activities

Add - net assets of governmental activities accounted for in internal service funds	1,820,112
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Certain liabilities, such as bond payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(4,507,496)
Deduct - accrued interest	(55,169)
Deduct - compensated absences	<u>(31,955)</u>

Net assets of governmental activities	<u><u>\$ 6,984,751</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	<u>General</u>	<u>Public Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenue</b>				
Taxes and assessments	\$ 2,116,348	\$ -	\$ 268,397	\$ 2,384,745
Licenses and permits	90,951	-	-	90,951
Intergovernmental	589,038	-	472,777	1,061,815
Charges for services	115,678	-	61,675	177,353
Rentals	12,230	-	2,480	14,710
Interest	114,909	38,897	26,182	179,988
Fines and forfeitures	25,809	-	-	25,809
Miscellaneous	33,118	-	65,868	98,986
	<u>3,098,081</u>	<u>38,897</u>	<u>897,379</u>	<u>4,034,357</u>
<b>Expenditures</b>				
Current:				
General government	794,506	-	-	794,506
Public safety	728,484	-	3,190	731,674
Highways and streets	182,211	-	392,422	574,633
Culture and recreation	223,793	-	319,640	543,433
Debt service:				
Principal	-	-	365,812	365,812
Interest and fiscal charges	-	-	236,287	236,287
Capital outlay	-	87,044	12,996	100,040
	<u>1,928,994</u>	<u>87,044</u>	<u>1,330,347</u>	<u>3,346,385</u>
Revenue over (under) expenditures	<u>1,169,087</u>	<u>(48,147)</u>	<u>(432,968)</u>	<u>687,972</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	28,850	-	119,002	147,852
Transfers in	2,218	730,000	653,472	1,385,690
Transfers out	(1,125,865)	(100,000)	(253,404)	(1,479,269)
	<u>(1,094,797)</u>	<u>630,000</u>	<u>519,070</u>	<u>54,273</u>
Net change in fund balances	74,290	581,853	86,102	742,245
Fund balances, beginning of year	<u>821,821</u>	<u>831,004</u>	<u>414,142</u>	<u>2,066,967</u>
<b>Fund balances, end of year</b>	<u><u>\$ 896,111</u></u>	<u><u>\$ 1,412,857</u></u>	<u><u>\$ 500,244</u></u>	<u><u>\$ 2,809,212</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2007**

Net change in fund balances - total governmental funds \$ 742,245

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	158,744
Deduct - depreciation expense	(182,035)
Deduct - proceeds from the sale of capital assets	(147,852)
Add - gain on the sale of capital assets	42,456

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term debt	365,812
Deduct - change in deferred special assessments receivable	(12,014)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in interest expense for accrued interest	3,877
Add - decrease in the accrual for compensated absences	12,478

Internal service funds are used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) of those funds is reported with governmental activities.

Deduct - loss from governmental activities in internal service funds	(56,816)
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Change in net assets of governmental activities	\$ 926,895
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The accompanying notes are an integral part of these financial statements.



**CITY OF HUDSONVILLE**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
<b>Revenue</b>				
Taxes	\$ 2,065,393	\$ 2,077,000	\$ 2,116,348	\$ 39,348
Licenses and permits	55,585	70,076	90,951	20,875
Intergovernmental	550,000	551,804	589,038	37,234
Charges for services	90,000	93,419	115,678	22,259
Rentals	10,150	12,400	12,230	(170)
Interest	42,000	75,000	114,909	39,909
Fines and forfeitures	18,100	23,515	25,809	2,294
Miscellaneous	2,000	32,073	33,118	1,045
Total revenue	2,833,228	2,935,287	3,098,081	162,794
<b>Expenditures</b>				
General government:				
Legislative	33,208	27,750	26,349	(1,401)
Executive	58,160	65,352	64,716	(636)
Elections	13,768	9,700	9,052	(648)
Assessor	101,800	113,154	114,542	1,388
Attorney	31,000	10,000	11,773	1,773
Clerk	73,900	73,900	68,435	(5,465)
Finance and accounting	123,559	118,720	107,521	(11,199)
City building and grounds	204,229	199,669	172,565	(27,104)
General administration	42,989	33,903	26,488	(7,415)
Information services	48,186	47,452	46,013	(1,439)
Planning commissions	98,297	85,493	83,216	(2,277)
Other functions	14,982	12,760	12,204	(556)
Miscellaneous	172,375	69,356	51,632	(17,724)
Total general government	1,016,453	867,209	794,506	(72,703)
Public safety:				
Police	497,921	497,313	568,924	71,611
Fire	151,169	144,678	138,869	(5,809)
Code enforcement	34,397	21,070	20,691	(379)
Total public safety	683,487	663,061	728,484	65,423
Highways and streets	161,176	173,981	182,211	8,230
Culture and recreation	273,407	228,444	223,793	(4,651)
Total expenditures	2,134,523	1,932,695	1,928,994	(3,701)
Revenue over expenditures	698,705	1,002,592	1,169,087	166,495

(continued)

**CITY OF HUDSONVILLE**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	\$ -	\$ 20,050	\$ 28,850	\$ 8,800
Transfers in	-	1,008	2,218	1,210
Transfers out	(666,132)	(498,134)	(1,125,865)	(627,731)
Total other financing sources (uses)	(666,132)	(477,076)	(1,094,797)	(617,721)
Net change in fund balances	32,573	525,516	74,290	(451,226)
Fund balances, beginning of year	821,821	821,821	821,821	-
<b>Fund balances, end of year</b>	<b>\$ 854,394</b>	<b>\$ 1,347,337</b>	<b>\$ 896,111</b>	<b>\$ (451,226)</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF HUDSONVILLE

## Statement of Net Assets

### Proprietary Funds

June 30, 2007

	Business-type Activities			Governmental Activities
				Internal Service Funds
	Sewer	Water	Total	
<b>Assets</b>				
Current assets:				
Cash and pooled investments	\$ 718,998	\$ 531,409	\$ 1,250,407	\$ 819,252
Restricted cash and pooled investments	38,333	19,167	57,500	-
Deposit with Ottawa County	-	261,389	261,389	-
Receivables:				
Accounts	328,375	228,191	556,566	-
Accrued interest	5,953	4,955	10,908	8,027
Inventory	9,051	16,584	25,635	-
Prepays	-	-	-	10,314
Total current assets	1,100,710	1,061,695	2,162,405	837,593
Noncurrent assets:				
Capital assets not being depreciated	15,229	172,914	188,143	-
Capital assets being depreciated, net	2,820,732	3,144,973	5,965,705	997,501
Total noncurrent assets	2,835,961	3,317,887	6,153,848	997,501
Total assets	3,936,671	4,379,582	8,316,253	1,835,094
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	76,976	72,837	149,813	6,015
Accrued wages	1,718	2,941	4,659	8,967
Accrued interest	4,649	11,985	16,634	-
Current portion of bonds payable	35,000	25,000	60,000	-
Total current liabilities	118,343	112,763	231,106	14,982
Noncurrent liabilities:				
Bonds payable, net of current portion	348,322	873,128	1,221,450	-
Unamortized bond premium / discount	(5,051)	10,927	5,876	-
Total long-term liabilities	343,271	884,055	1,227,326	-
Total liabilities	461,614	996,818	1,458,432	14,982
<b>Net assets</b>				
Invested in capital assets, net of related debt	2,457,690	2,408,832	4,866,522	997,501
Restricted	38,333	19,167	57,500	-
Unrestricted	979,034	954,765	1,933,799	822,611
Total net assets	\$ 3,475,057	\$ 3,382,764	\$ 6,857,821	\$ 1,820,112

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
				<b>Internal Service Funds</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>Operating revenue</b>				
Fees	\$ 1,244	\$ 43,579	\$ 44,823	\$ -
Charges for services	713,914	745,255	1,459,169	669,888
Miscellaneous	16,763	20	16,783	-
Total operating revenue	731,921	788,854	1,520,775	669,888
<b>Operating expenses</b>				
Disposal costs	466,432	-	466,432	-
Water purchases	-	260,866	260,866	-
Personnel services	79,717	136,726	216,443	463,348
Professional and contractual services	41,786	28,257	70,043	228,440
Supplies and materials	1,871	15,655	17,526	27,744
Utilities	18,950	6,787	25,737	-
Repairs and maintenance	79,526	30,627	110,153	30,975
Capital outlay	-	15,128	15,128	-
Equipment rental	4,559	11,166	15,725	-
Depreciation	119,861	85,704	205,565	105,616
Amortization of bond premium/discount	421	(352)	69	-
Miscellaneous	1,700	4,441	6,141	2,708
Total operating expenses	814,823	595,005	1,409,828	858,831
Operating income (loss)	(82,902)	193,849	110,947	(188,943)
<b>Nonoperating revenue (expenses)</b>				
Interest income	33,612	20,652	54,264	38,548
Interest expense	(18,869)	(26,348)	(45,217)	-
Total nonoperating revenue (expenses)	14,743	(5,696)	9,047	38,548
Net income (loss) before transfers	(68,159)	188,153	119,994	(150,395)
<b>Transfers</b>				
Transfers in	-	-	-	416,395
Transfers out	-	-	-	(322,816)
Total transfers	-	-	-	93,579
Change in net assets	(68,159)	188,153	119,994	(56,816)
Net assets, beginning of year, as restated	3,543,216	3,194,611	6,737,827	1,876,928
<b>Net assets, end of year</b>	<b>\$ 3,475,057</b>	<b>\$ 3,382,764</b>	<b>\$ 6,857,821</b>	<b>\$ 1,820,112</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
				<b>Internal Service Funds</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 746,305	\$ 746,238	\$ 1,492,543	\$ -
Receipts from interfund services	-	-	-	696,144
Payments to vendors	(620,310)	(710,759)	(1,331,069)	(315,215)
Payments to employees	(79,874)	(137,080)	(216,954)	(462,884)
Net cash provided by (used in) operating activities	46,121	(101,601)	(55,480)	(81,955)
<b>Cash flows from non-capital financing activities</b>				
Transfers in	-	-	-	120,360
Transfers out	-	-	-	(26,781)
Net cash provided by non-capital financing activities	-	-	-	93,579
<b>Cash flows from capital and related financing activities</b>				
Purchase of property, plant and equipment	(15,229)	(619,941)	(635,170)	-
Issuance of long-term debt	-	381,450	381,450	-
Premium on issuance of long-term debt	-	12,917	12,917	-
Principal paid on long-term debt	(23,345)	(36,655)	(60,000)	-
Interest and fiscal charges	(18,869)	(26,348)	(45,217)	-
Net cash used in capital and related financing activities	(57,443)	(288,577)	(346,020)	-
<b>Cash flows from investing activities</b>				
Interest income	33,612	20,652	54,264	38,548
Net increase (decrease) in cash and pooled investments	22,290	(369,526)	(347,236)	50,172
Cash and pooled investments, beginning of year	735,041	920,102	1,655,143	769,080
<b>Cash and pooled investments, end of year</b>	<u>\$ 757,331</u>	<u>\$ 550,576</u>	<u>\$ 1,307,907</u>	<u>\$ 819,252</u>
Cash and pooled investments are classified as follows on the statement of net assets:				
Cash and pooled investments	\$ 718,998	\$ 531,409	\$ 1,250,407	\$ 819,252
Restricted cash and pooled investments	38,333	19,167	57,500	-
	<u>\$ 757,331</u>	<u>\$ 550,576</u>	<u>\$ 1,307,907</u>	<u>\$ 819,252</u>

(continued)

**CITY OF HUDSONVILLE**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Cash flows from operating activities</b>				
Operating income (loss)	\$ (82,902)	\$ 193,849	\$ 110,947	\$ (188,943)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	119,861	85,704	205,565	105,616
Amortization of bond discount	421	(352)	69	-
Changes in assets/liabilities:				
Deposits with Ottawa County	-	(261,389)	(261,389)	-
Accounts receivable	13,029	(47,835)	(34,806)	-
Interest receivable	1,355	5,219	6,574	97
Prepays	-	-	-	(10,314)
Deposits	-	-	-	2,400
Inventory	(3,453)	(4,937)	(8,390)	-
Due from other funds	40,667	(40,667)	-	26,502
Accounts payable	(41,987)	(38,654)	(80,641)	(25,242)
Accrued wages	(157)	(354)	(511)	7,929
Accrued interest	(713)	7,815	7,102	-
<b>Net cash provided by (used in) operating activities</b>	<u><u>\$ 46,121</u></u>	<u><u>\$ (101,601)</u></u>	<u><u>\$ (55,480)</u></u>	<u><u>\$ (81,955)</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Combining Statement of Net Assets**  
**Discretely Presented Component Units**  
**June 30, 2007**

	<b>Tax Increment Finance Authority</b>	<b>Local Development Finance Authority</b>	<b>Downtown Development Authority</b>	<b>Totals</b>
<b>Assets</b>				
Cash and pooled investments	\$ 1,221,625	\$ 81,800	\$ 22,567	\$ 1,325,992
Accrued interest receivable	12,057	807	222	13,086
	<u>1,233,682</u>	<u>82,607</u>	<u>22,789</u>	<u>1,339,078</u>
Total assets				
	<u>1,233,682</u>	<u>82,607</u>	<u>22,789</u>	<u>1,339,078</u>
<b>Liabilities</b>				
Accounts payable	-	-	123	123
Accrued interest	16,610	-	-	16,610
Noncurrent liabilities:				
Due within one year	215,000	-	-	215,000
Bonds payable, net of current portion	1,090,000	-	-	1,090,000
	<u>1,321,610</u>	<u>-</u>	<u>123</u>	<u>1,321,733</u>
Total liabilities				
	<u>1,321,610</u>	<u>-</u>	<u>123</u>	<u>1,321,733</u>
<b>Net assets (deficit)</b>				
Unrestricted	<u>\$ (87,928)</u>	<u>\$ 82,607</u>	<u>\$ 22,666</u>	<u>\$ 17,345</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HUDSONVILLE**  
**Combining Statement of Activities**  
**Discretely Presented Component Units**  
**For the Year Ended June 30, 2007**

	<b>Tax Increment Finance Authority</b>	<b>Local Development Finance Authority</b>	<b>Downtown Development Authority</b>	<b>Totals</b>
<b>Expenses</b>				
Tax Increment Finance Authority	\$ 93,659	\$ -	\$ -	\$ 93,659
Local Development Finance Authority	-	65,537	-	65,537
Downtown Development Authority	-	-	27,918	27,918
	<u>-</u>	<u>-</u>	<u>27,918</u>	<u>27,918</u>
Total expenses	<u>93,659</u>	<u>65,537</u>	<u>27,918</u>	<u>187,114</u>
<b>General revenue</b>				
Taxes	531,044	61,446	15,186	607,676
Interest	61,622	3,797	1,372	66,791
Miscellaneous	-	-	2,314	2,314
	<u>-</u>	<u>-</u>	<u>2,314</u>	<u>2,314</u>
Total general revenue	<u>592,666</u>	<u>65,243</u>	<u>18,872</u>	<u>676,781</u>
Change in net assets	499,007	(294)	(9,046)	489,667
Net assets (deficit), beginning of year	<u>(586,935)</u>	<u>82,901</u>	<u>31,712</u>	<u>(472,322)</u>
<b>Net assets (deficit), end of year</b>	<u><u>\$ (87,928)</u></u>	<u><u>\$ 82,607</u></u>	<u><u>\$ 22,666</u></u>	<u><u>\$ 17,345</u></u>

The accompanying notes are an integral part of these financial statements.



**CITY OF HUDSONVILLE**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2007**

**Assets**

Cash and pooled investments	\$ 9,712
Accounts receivable	4,852
Due from other governments	<u>71,436</u>
 Total assets	 <u><u>\$ 86,000</u></u>

**Liabilities**

Accounts payable	<u><u>\$ 86,000</u></u>
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The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hudsonville (the “City”) was incorporated November 5, 1957, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Commission-Manager form of government and provides the following services: Public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

***Blended Component Unit***

The Hudsonville Building Authority – The members of the governing board of the Building Authority are appointed by the City Commission. The City has significant influence over operations of the building authority and also is accountable for its fiscal matters.

***Discretely Presented Component Units***

Tax Increment Finance Authority – The members of the governing board of the Tax Increment Finance Authority are appointed by the City Commission. The budgets and expenditures of the Tax Increment Finance Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Tax Increment Finance Authority.

Local Development Finance Authority – The members of the governing board of the Local Development Finance Authority are appointed by the City Commission. The budgets and expenditures of the Local Development Finance Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Local Development Finance Authority.

Downtown Development Authority – The members of the governing board of the Downtown Development Authority are appointed by the City Commission. The budgets and expenditures of the Downtown Development Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Complete financial statements for the component units are not separately prepared.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Public Improvement Fund* is a capital projects fund used to account for capital outlay expenditures of the City.

The City reports the following major proprietary funds:

*Sewer Fund* – This fund is used to account for the cost of collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

*Water Fund* – The cost of providing water services to City residents is accounted for by this fund. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

*Special Revenue Funds* are used to account for revenue from specific revenue (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

*Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

*Capital Projects Funds* account for the accumulation and disbursement of resources for the construction of City capital projects.

*Internal Service Funds* are used to account for financing of goods or services provided by the City to other departments or funds to other governmental units on a cost reimbursement basis.

*Agency Funds* are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Budgets and Budgetary Accounting***

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2007. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Commission.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Commission.

***Cash and Pooled Investments***

For purposes of the statement of cash flows, the City considers all assets held in highly liquid investments with an original maturity of three months or less to be cash and temporary investments.

***Receivables***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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***Special Assessments***

Special assessments are recorded as revenue when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue. Special assessments are billed annually.

***Pensions***

The provision for pension cost is recorded on an annual basis and the City's policy is to fund pension costs as they accrue.

***Inventory and Prepaid items***

Inventory is valued at cost on the first-in/first-out (FIFO) method. Inventory is recorded as expenditures when consumed rather than when purchased.

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. The capitalization threshold is \$5,000. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	50
Machinery and equipment	3 - 35
Water/sewer system	5 - 50

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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***Deferred Revenue***

The City reports deferred revenue when cash receipts do not meet both the “measurable” and “available” criteria for recognition in the current period.

***Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Property Taxes***

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before August 15, and winter taxes are levied on December 1 and are due without penalty on or before February 14. The City bills and collects its own property taxes for general governmental services, road, and debt retirement. Additionally, the City collects taxes for Ottawa County and various school districts. Collections of property taxes and remittances to the appropriate authorities are accounted for in the Trust and Agency Fund.

***Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

***Compensated Absences***

Under terms of City policies, employees are granted sick leave at the rate of .83 days per month. Unused sick leave may accumulate up to 80 hours (depending on their bargaining unit). Employees are granted vacation time in varying amounts based on length of service. Employees must use their vacation each year.

Compensated absences are recorded on the statement of net assets.

***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.



**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

***Risk Management***

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

**2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted on the activity level in the General Fund and the function level in other funds.

During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u><b>Total Appropriations</b></u>	<u><b>Amount of Expenditures</b></u>	<u><b>Budget Variance</b></u>
General Fund:			
Assessor	\$ 113,154	\$ 114,542	\$ 1,388
Attorney	10,000	11,773	1,733
Police	497,313	568,924	71,611
Highways and streets	173,981	182,211	8,230
Transfers out	498,134	1,125,865	627,731

**3. DEFICIT NET ASSETS**

At June 30, 2007, the Tax Increment Finance Authority had negative net assets of \$87,928. This deficit will be eliminated in future years as property taxes are collected and used to pay off the bonds outstanding.

**4. DEPOSITS AND INVESTMENTS**

The captions on the government-wide and fund statements relating to cash and investments are as follows:

	<u><b>Primary Government</b></u>	<u><b>Component Units</b></u>	<u><b>Fiduciary Funds</b></u>	<u><b>Total</b></u>
Cash and pooled investments	\$4,626,747	\$1,325,992	\$9,712	\$5,962,451
Restricted cash and pooled investments	85,473	-	-	85,473
<b>Total cash and pooled investments</b>	<u><b>\$4,712,220</b></u>	<u><b>\$1,325,992</b></u>	<u><b>\$9,712</b></u>	<u><b>\$6,047,924</b></u>

These deposits are in seven (7) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. Deposits and investments are recorded in City records at fair value. Interest is recorded when earned.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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Cash and investments are composed of the following at June 30, 2007:

Checking/Savings Accounts	\$ 831,272
Certificates of Deposit (due within one year)	2,818,506
Investments	2,397,646
Petty Cash	<u>500</u>
<b>Total cash and investments</b>	<b><u>\$ 6,047,924</u></b>

**Custodial Credit Risk – Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$2,906,803 City's bank balance of \$3,806,803 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Investments**

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	<u><b>Maturity</b></u>	<u><b>Fair Value</b></u>	<u><b>Rating</b></u>
Federal Home Loan Mortgage Corporation	01/26/2010	\$ 250,000	S&P AAA
Federal National Mortgage Association	07/27/2007	250,000	S&P AAA
Federal National Mortgage Association	09/21/2007	249,625	S&P AAA
Federal National Mortgage Association	07/02/2008	248,021	S&P AAA
Federal Home Loan Bank	01/05/2009	250,000	S&P AAA
Federal Home Loan Bank	07/05/2007	250,000	S&P AAA
Federal Home Loan Bank	08/23/2007	200,000	S&P AAA
Federal Home Loan Bank	09/28/2010	250,000	S&P AAA
Federal Home Loan Bank	05/14/2008	200,000	S&P AAA
Federal Farm Credit Bank	02/15/2011	<u>250,000</u>	S&P AAA
		<u>\$ 2,397,646</u>	

The above investments do not include certificates of deposit.

***Investment and Deposit Risk***

**Interest Rate Risk.** State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

*Custodial Credit Risk-Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for the investment custodial risk. At year-end, the City was not exposed to custodial credit risk, as all investments are held in the name of the City.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

***Statutory Authority***

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**5. CAPITAL ASSETS**

Changes in capital assets for the year ending June 30, 2007, are as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2007</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 3,059,582	\$ -	\$ 9,200	\$ 3,050,382
Construction in progress	<u>-</u>	<u>2,026</u>	<u>-</u>	<u>2,026</u>
Total capital assets, not being depreciated	<u>3,059,582</u>	<u>2,026</u>	<u>9,200</u>	<u>3,052,408</u>
Capital assets, being depreciated:				
Land improvements	1,110,611	89,965	-	1,200,576
Buildings	3,914,493	-	94,929	3,819,564
Machinery and equipment	2,367,795	8,112	45,399	2,330,508
Office furniture and equipment	<u>612,041</u>	<u>58,641</u>	<u>16,249</u>	<u>654,433</u>
Total capital assets, being depreciated	<u>8,004,940</u>	<u>156,718</u>	<u>156,577</u>	<u>8,005,081</u>
Less accumulated depreciation for:				
Land improvements	355,003	52,817	-	407,820
Buildings	1,035,035	75,564	12,341	1,098,258
Machinery and equipment	972,179	137,864	32,920	1,077,123
Office furniture and equipment	<u>571,444</u>	<u>21,406</u>	<u>15,120</u>	<u>577,730</u>
Total accumulated depreciation	<u>2,933,661</u>	<u>287,651</u>	<u>60,381</u>	<u>3,160,931</u>
Net capital assets, being depreciated	<u>5,071,279</u>	<u>(130,933)</u>	<u>96,196</u>	<u>4,844,150</u>
<b>Net governmental activities capital assets</b>	<u><b>\$ 8,130,861</b></u>	<u><b>\$ (128,907)</b></u>	<u><b>\$ 105,396</b></u>	<u><b>\$ 7,896,558</b></u>
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 39,936	\$ -	\$ -	\$ 39,936
Construction in progress	<u>24,335</u>	<u>148,207</u>	<u>24,335</u>	<u>148,207</u>
Total capital assets, not being depreciated	<u>64,271</u>	<u>148,207</u>	<u>24,335</u>	<u>188,143</u>
Capital assets being depreciated:				
Water system	4,655,479	511,298	-	5,166,777
Sewer system	<u>5,642,316</u>	<u>-</u>	<u>-</u>	<u>5,642,316</u>
Total capital assets, being depreciated	<u>10,297,795</u>	<u>511,298</u>	<u>-</u>	<u>10,322,130</u>
Less accumulated depreciation for:				
Water	1,936,101	85,704	-	2,021,805
Sewer	<u>2,701,723</u>	<u>119,861</u>	<u>-</u>	<u>2,821,583</u>
Total accumulated depreciation	<u>4,637,823</u>	<u>205,565</u>	<u>-</u>	<u>4,843,388</u>
Net capital assets, being depreciated	<u>5,659,972</u>	<u>305,733</u>	<u>-</u>	<u>5,965,705</u>
<b>Net business-type activities capital assets</b>	<u><b>\$ 5,724,243</b></u>	<u><b>\$ 453,940</b></u>	<u><b>\$ 24,335</b></u>	<u><b>\$ 6,153,848</b></u>

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities**

General government	\$ 63,805
Public safety	23,824
Public works	12,029
Recreation and cultural	57,314
Streets	25,063
Depreciation charged to Internal Service Funds	<u>105,616</u>

<b>Total depreciation expense – governmental activities</b>	<b><u>\$287,651</u></b>
---	-------------------------

**Business-type activities**

Sewer	\$119,861
Water	<u>85,704</u>

<b>Total depreciation expense – business-type activities</b>	<b><u>\$205,565</u></b>
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**6. INTERFUND TRANSFERS**

The composition of transfers for the year ended June 30, 2007, is as follows:

	<b><u>Transfers In</u></b>	<b><u>Transfers Out</u></b>
Governmental Funds:		
General Fund	\$ 2,218	\$1,125,865
Public Improvement Capital Projects Fund	730,000	100,000
Nonmajor	653,472	253,404
Internal Service Funds	<u>416,395</u>	<u>322,816</u>
<b>Total</b>	<b><u>\$1,802,085</u></b>	<b><u>\$1,802,085</u></b>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**7. LONG-TERM DEBT**

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
4.75% - 5.0% Special Assessment Bonds, Series 1999	\$ 105,000	\$ -	\$ 15,000	\$ 90,000	\$ 15,000
3.95% - 5.0% Public Improvement City GO Bonds, Series 1999	125,000	-	15,000	110,000	15,000
4.1% - 5.35% Hudsonville Building Authority Bonds	3,955,000	-	210,000	3,745,000	230,000
4.25% - 7.25% Michigan Transportation Bonds, Series 2001	305,000	-	55,000	250,000	60,000
3.97% Installment Purchase Contract, 2001	383,308	-	70,812	312,496	73,623
Subtotal – installment debt	4,873,308	-	365,812	4,507,496	393,623
Compensated absences	44,433	52,583	65,061	31,955	31,955
<b>Total governmental activities</b>	<b>\$ 4,917,741</b>	<b>\$ 52,583</b>	<b>\$ 430,873</b>	<b>\$ 4,539,451</b>	<b>\$ 425,578</b>
	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<b>Business-type activities</b>					
4.0% - 5.2% Water Supply and Sewage Disposal System Revenue Bonds Series 1999	\$ 610,000	\$ -	\$ 35,000	\$ 575,000	\$ 35,000
2.5% Drinking Water Revolving Fund, Series 1999	350,000	-	25,000	325,000	25,000
4.0% - 5.0% Ottawa County Water Supply System Bonds, Series 2007	-	381,450	-	381,450	-
Subtotal – installment debt	960,000	381,450	60,000	1,281,450	60,000
Net premium/discount	(7,110)	12,917	(69)	5,876	-
<b>Total business-type activities</b>	<b>\$ 952,890</b>	<b>\$ 94,367</b>	<b>\$ 59,931</b>	<b>\$1,287,326</b>	<b>\$ 60,000</b>

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due One Year</u>
<b>Component Unit – Tax Increment Finance Authority</b>					
5.5% - 7.0% Downtown Development Series 1991	\$ 450,000	\$ -	\$ 100,000	\$ 350,000	\$ 100,000
5.5% - 8.5% General Obligation Limited	<u>1,040,000</u>	<u>-</u>	<u>85,000</u>	<u>955,000</u>	<u>115,000</u>
Total Component Unit Debt	<u><b>\$ 1,490,000</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 185,000</b></u>	<u><b>\$ 1,305,000</b></u>	<u><b>\$ 215,000</b></u>

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2007 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 393,623	\$ 218,880	\$ 60,000	\$ 51,278	\$ 215,000	\$ 80,605
2009	416,545	200,562	65,000	49,148	225,000	66,590
2010	449,584	180,781	65,000	46,763	225,000	52,965
2011	477,744	159,109	77,300	44,338	160,000	39,840
2012	350,000	135,911	77,600	41,351	160,000	29,760
2013-2017	2,065,000	373,127	432,300	158,062	320,000	29,600
2018-2022	355,000	9,496	236,750	71,942	-	-
2023-2027	-	-	99,600	46,542	-	-
2028-2032	-	-	136,550	23,190	-	-
Thereafter	<u>-</u>	<u>-</u>	<u>31,350</u>	<u>1,254</u>	<u>-</u>	<u>-</u>
	<u><b>\$4,507,496</b></u>	<u><b>\$1,277,866</b></u>	<u><b>\$1,281,450</b></u>	<u><b>\$533,868</b></u>	<u><b>\$1,305,000</b></u>	<u><b>\$299,360</b></u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

## 8. DEFINED BENEFIT PENSION PLAN

### *Municipal Employees Retirement System of Michigan*

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate varies by employment group from zero to 19.8 percent of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

For the year ended June 30, 2007 the City's annual pension cost for MERS of \$103,252 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

**Three-Year Trend Information**

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 84,588	100%	\$ -
2006	80,730	100%	-
2007	103,252	100%	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$1,142,776	\$2,222,428	\$1,079,652	51%	\$424,432	254%
12/31/05	1,153,607	2,374,907	1,221,300	48%	439,759	277%
12/31/06	1,243,277	1,885,387	642,110	66%	86,796	740%

**9. DEFINED CONTRIBUTION PLAN**

The City of Hudsonville Governmental Money Purchase Plan and trust is a defined contribution retirement plan administered by the Michigan Municipal Employees Retirement System. This Plan provides benefits at retirement to all new City employees and employees requesting conversion to the Plan during the appropriate conversion window. The City is required to contribute up to 13% of employee covered payroll depending on employee bargaining unit and employee contributions. Employees are required to contribute 2% of covered payroll with a 100% match of employee contributions paid by the City. Plan provisions and contribution requirements are established and may be amended by the City of Hudsonville City Commission. During the current year the City contributed \$98,923 while participants contributed \$41,168.

**10. LITIGATION**

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.



**CITY OF HUDSONVILLE**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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**11. PRIOR PERIOD ADJUSTMENT**

Beginning net assets of the sewer fund were increased by \$72,151 and a corresponding decrease was made to beginning net assets of the water fund to properly reallocate long-term debt between the funds. In addition, beginning net assets of the sewer and water funds were increased by \$57,355 and \$49,142, respectively, to account for a utility billing cycle that should have been accrued in the prior year.

These adjustments resulted in a net change in beginning net assets the sewer and water funds of \$129,506 and \$(23,009), respectively, and a net increase of beginning net assets of business-type activities of \$106,497.

\* \* \* \* \*

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## **NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF HUDSONVILLE**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	<b>Special Revenue</b>		
	<b>Major Street</b>	<b>Local Street</b>	<b>Library</b>
<b>Assets</b>			
Cash and pooled investments	\$ 191,952	\$ 56,721	\$ 93,848
Restricted cash and pooled investments	-	-	27,973
Receivables:			
Accounts	-	-	869
Special assessments	-	-	-
Interest	1,850	559	738
Due from other governments	57,882	17,556	35,776
Total assets	<u>\$ 251,684</u>	<u>\$ 74,836</u>	<u>\$ 159,204</u>
<b>Liabilities</b>			
Accounts payable	\$ 6,431	\$ 129	\$ 19,069
Accrued wages payable	2,456	2,165	5,086
Deferred revenue	-	-	-
Total liabilities	<u>8,887</u>	<u>2,294</u>	<u>24,155</u>
<b>Fund balances</b>			
Reserved for Library endowment	-	-	27,973
Unreserved - undesignated	242,797	72,542	107,076
Total fund balances	<u>242,797</u>	<u>72,542</u>	<u>135,049</u>
Total liabilities and fund balances	<u>\$ 251,684</u>	<u>\$ 74,836</u>	<u>\$ 159,204</u>

		Debt Service				
Public Safety	Community Policing	1999 Special				
		1999 Bonds	Assessment Bonds	1990 Major Street Bonds	Library Construction	
\$ 269	\$ -	\$ -	\$ 1,090	\$ 91	\$ -	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	45,718	-	-	
3	-	-	11	-	-	
-	-	-	-	-	-	
<hr/>		<hr/>				
\$ 272	\$ -	\$ -	\$ 46,819	\$ 91	\$ -	
<hr/>		<hr/>				
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	-	
-	-	-	45,718	-	-	
<hr/>		<hr/>				
-	-	-	45,718	-	-	
<hr/>		<hr/>				
-	-	-	-	-	-	
272	-	-	1,101	91	-	
<hr/>		<hr/>				
272	-	-	1,101	91	-	
<hr/>		<hr/>				
\$ 272	\$ -	\$ -	\$ 46,819	\$ 91	\$ -	
<hr/>		<hr/>				

(Continued)

**CITY OF HUDSONVILLE**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	<b>Debt Service</b>		
	<b>2001 Street Improvement</b>	<b>Lease Purchase</b>	<b>Hudsonville Building Authority</b>
<b>Assets</b>			
Cash and pooled investments	\$ 157	\$ -	\$ -
Restricted cash and pooled investments	-	-	-
Receivables:			
Accounts	-	-	-
Special assessments	-	-	-
Interest	122	-	-
Due from other governments	-	-	-
Total assets	<u>\$ 279</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
Accrued wages payable	-	-	-
Deferred revenue	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances</b>			
Reserved for Library endowment	-	-	-
Unreserved - undesignated	279	-	-
Total fund balances	<u>279</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 279</u>	<u>\$ -</u>	<u>\$ -</u>

Capital Projects									
Highland Drive East		Water		Sidewalk	Facility Improvements Ada		New Holland Bike Path		New Holland Sanitary/ Sidewalk
\$	-	\$	-	\$ 1,454	\$	-	\$	-	\$ -
	-		-			-		-	-
	-		-			-		-	-
	-		-	5,272		-		-	-
	-		-	14		-		-	-
	-		-			-		-	-
<hr/>									
\$	-	\$	-	\$ 6,740	\$	-	\$	-	\$ -
<hr/>									
\$	-	\$	-	\$ -	\$	-	\$	-	\$ -
	-		-			-		-	-
	-		-	5,272		-		-	-
<hr/>									
	-		-	5,272		-		-	-
<hr/>									
	-		-			-		-	-
	-		-	1,468		-		-	-
<hr/>									
	-		-	1,468		-		-	-
<hr/>									
\$	-	\$	-	\$ 6,740	\$	-	\$	-	\$ -
<hr/>									

(Continued)

**CITY OF HUDSONVILLE**  
**Combining Balance Sheet (Concluded)**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	<u>Capital Projects</u>		
	<u>Hillside</u>	<u>Library</u>	
	<u>Park</u>	<u>Expansion</u>	
	<u>Development</u>		<u>Totals</u>
<b>Assets</b>			
Cash and pooled investments	\$ 5,001	\$ 41,386	\$ 391,969
Restricted cash and pooled investments	-	-	27,973
Receivables:			
Accounts	-	-	869
Special assessments	-	-	50,990
Interest	-	408	3,705
Due from other governments	-	-	111,214
Total assets	\$ 5,001	\$ 41,794	586,720
<b>Liabilities</b>			
Accounts payable	\$ 150	\$ -	\$ 25,779
Accrued wages payable	-	-	9,707
Deferred revenue	-	-	50,990
Total liabilities	150	-	86,476
<b>Fund balances</b>			
Reserved for Library endowment	-	-	27,973
Unreserved - undesignated	4,851	41,794	472,271
Total fund balances	4,851	41,794	500,244
Total liabilities and fund balances	\$ 5,001	\$ 41,794	\$ 586,720



**CITY OF HUDSONVILLE**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	<b>Special Revenue</b>		
	<b>Major Street</b>	<b>Local Street</b>	<b>Library</b>
<b>Revenues</b>			
Taxes	\$ -	\$ -	\$ 190,220
Special assessments	-	-	-
Intergovernmental	352,541	116,638	3,598
Charges for services	-	-	61,675
Rentals	2,480	-	-
Interest	6,599	1,776	8,950
Miscellaneous	3,892	(180)	61,024
Total revenues	365,512	118,234	325,467
<b>Expenditures</b>			
Current:			
Public safety	-	-	-
Highways and streets	224,096	168,326	-
Culture and recreation	-	-	319,640
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay	-	-	-
Total expenditures	224,096	168,326	319,640
Revenues over (under) expenditures	141,416	(50,092)	5,827
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	119,002	-	-
Transfers in	30,000	83,647	-
Transfers out	(129,666)	(1,540)	-
Total other financing sources (uses)	19,336	82,107	-
Net changes in fund balances	160,752	32,015	5,827
Fund balances (deficit), beginning of year	82,045	40,527	129,222
<b>Fund balances, end of year</b>	<b>\$ 242,797</b>	<b>\$ 72,542</b>	<b>\$ 135,049</b>

		Debt Service			
Public Safety	Community Policing	1999 Bonds	1999 Special Assessment Bonds	1990 Major Street	Library Construction Debt Service
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	6,532	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
21	-	-	3,563	-	-
100	-	-	-	-	-
121	-	-	10,095	-	-
560	2,630	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	15,000	15,000	-	50,400
-	-	6,183	5,513	-	47,164
-	-	-	-	-	-
560	2,630	21,183	20,513	-	97,564
(439)	(2,630)	(21,183)	(10,418)	-	(97,564)
-	-	-	-	-	-
-	-	20,922	7,245	-	96,632
(1,210)	-	-	-	-	-
(1,210)	-	20,922	7,245	-	96,632
(1,649)	(2,630)	(261)	(3,173)	-	(932)
1,921	2,630	261	4,274	91	932
\$ 272	\$ -	\$ -	\$ 1,101	\$ 91	\$ -

(Continued)

**CITY OF HUDSONVILLE**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	<b>Debt Service</b>		
	<b>2001 Street Improvement</b>	<b>Lease Purchase</b>	<b>Hudsonville Building Authority</b>
<b>Revenues</b>			
Taxes	\$ -	\$ -	\$ -
Special assessments	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Rentals	-	-	-
Interest	853	1,160	-
Miscellaneous	-	-	-
Total revenues	853	1,160	-
<b>Expenditures</b>			
Current:			
Public safety	-	-	-
Highways and streets	-	-	-
Culture and recreation	-	-	-
Debt service:			
Principal	55,000	70,812	159,600
Interest and fiscal charges	13,447	14,677	149,303
Capital outlay	-	-	-
Total expenditures	68,447	85,489	308,903
Revenues over (under) expenditures	(67,594)	(84,329)	(308,903)
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	-	-	-
Transfers in	66,535	41,024	297,467
Transfers out	-	-	-
Total other financing sources (uses)	66,535	41,024	297,467
Net changes in fund balances	(1,059)	(43,305)	(11,436)
Fund balances (deficit), beginning of year	1,338	43,305	11,436
<b>Fund balances, end of year</b>	<b>\$ 279</b>	<b>\$ -</b>	<b>\$ -</b>

Capital Projects						
Highland Drive East	Water	Sidewalk	Facility Improvements Ada	New Holland Bike Path	New Holland Sanitary/ Sidewalk	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	1,745	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
39	18	845	27	38	108	
-	-	-	-	-	-	
39	18	2,590	27	38	108	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
39	18	2,590	27	38	108	
-	-	-	-	-	-	
-	-	-	-	-	-	
(5,280)	(1,965)	-	(1,008)	(4,247)	(11,856)	
(5,280)	(1,965)	-	(1,008)	(4,247)	(11,856)	
(5,241)	(1,947)	2,590	(981)	(4,209)	(11,748)	
5,241	1,947	(1,122)	981	4,209	11,748	
\$ -	\$ -	\$ 1,468	\$ -	\$ -	\$ -	

(Continued)

**CITY OF HUDSONVILLE**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances (Concluded)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	<b>Capital Projects</b>		
	<b>Hillside</b>		
	<b>Park</b>	<b>Library</b>	
	<b>Development</b>	<b>Expansion</b>	<b>Totals</b>
<b>Revenues</b>			
Taxes	\$ -	\$ 69,900	\$ 260,120
Special assessments	-	-	8,277
Intergovernmental	-	-	472,777
Charges for services	-	-	61,675
Rentals	-	-	2,480
Interest	107	2,078	26,182
Miscellaneous	901	131	65,868
Total revenues	1,008	72,109	897,379
<b>Expenditures</b>			
Current:			
Public safety	-	-	3,190
Highways and streets	-	-	392,422
Culture and recreation	-	-	319,640
Debt service:			
Principal	-	-	365,812
Interest and fiscal charges	-	-	236,287
Capital outlay	12,996	-	12,996
Total expenditures	12,996	-	1,330,347
Revenues over (under) expenditures	(11,988)	72,109	(432,968)
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	-	-	119,002
Transfers in	10,000	-	653,472
Transfers out	-	(96,632)	(253,404)
Total other financing sources (uses)	10,000	(96,632)	519,070
Net changes in fund balances	(1,988)	(24,523)	86,102
Fund balances (deficit), beginning of year	6,839	66,317	414,142
<b>Fund balances, end of year</b>	<b>\$ 4,851</b>	<b>\$ 41,794</b>	<b>\$ 500,244</b>

## **INTERNAL SERVICE FUNDS**

**CITY OF HUDSONVILLE**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2007**

	<b>Motor Pool</b>	<b>Compensated Absences</b>	<b>Fire Equipment Fund</b>	<b>Insurance</b>	<b>Total</b>
<b>Assets</b>					
Current assets:					
Cash and pooled investments	\$ 790,964	\$ 28,288	\$ -	\$ -	\$ 819,252
Interest receivable	7,781	246	-	-	8,027
Prepays	-	10,314	-	-	10,314
Total current assets	798,745	38,848	-	-	837,593
Capital assets being depreciated, net	997,501	-	-	-	997,501
Total assets	1,796,246	38,848	-	-	1,835,094
<b>Liabilities</b>					
Accounts payable	2,689	3,326	-	-	6,015
Accrued wages	1,502	7,465	-	-	8,967
Total current liabilities	4,191	10,791	-	-	14,982
<b>Net assets</b>					
Invested in capital assets	997,501	-	-	-	997,501
Unrestricted	794,554	28,057	-	-	822,611
Total net assets	<u>\$ 1,792,055</u>	<u>\$ 28,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,820,112</u>

**CITY OF HUDSONVILLE**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<b>Motor Pool</b>	<b>Compensated Absences</b>	<b>Fire Equipment Fund</b>	<b>Insurance</b>	<b>Total</b>
<b>Operating revenue</b>					
Charges for services	\$ 153,620	\$ 516,268	\$ -	\$ -	\$ 669,888
<b>Operating expenses</b>					
Personnel services	43,189	420,159	-	-	463,348
Insurance	15,878	210,902	-	1,660	228,440
Supplies and materials	27,744	-	-	-	27,744
Repairs and maintenance	30,975	-	-	-	30,975
Depreciation	105,616	-	-	-	105,616
Miscellaneous	2,708	-	-	-	2,708
Total operating expenses	226,110	631,061	-	1,660	858,831
Operating loss	(72,490)	(114,793)	-	(1,660)	(188,943)
<b>Nonoperating revenue</b>					
Interest income	37,983	565	-	-	38,548
Net loss before transfers	(34,507)	(114,228)	-	(1,660)	(150,395)
<b>Transfers</b>					
Transfers in	296,039	120,356	-	-	416,395
Transfers out	-	-	(296,039)	(26,777)	(322,816)
Total transfers	296,039	120,356	(296,039)	(26,777)	93,579
Changes in net assets	261,532	6,128	(296,039)	(28,437)	(56,816)
Net assets, beginning of year	1,530,523	21,929	296,039	28,437	1,876,928
<b>Net assets, end of year</b>	<u>\$ 1,792,055</u>	<u>\$ 28,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,820,112</u>



**CITY OF HUDSONVILLE**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<b>Motor Pool</b>	<b>Compensated Absences</b>	<b>Fire Equipment Fund</b>	<b>Insurance</b>	<b>Total</b>
<b>Cash flows from operating activities</b>					
Receipts from interfund services	\$ 180,122	\$ 516,022	\$ -	\$ -	\$ 696,144
Payments to vendors	(97,710)	(218,518)	-	1,013	(315,215)
Payments to employees	(42,725)	(420,159)	-	-	(462,884)
Net cash provided by (used in) operating activities	39,687	(122,655)	-	1,013	(81,955)
<b>Cash flows from non-capital financing activities</b>					
Transfers in	4	120,356	-	-	120,360
Transfers out	-	-	(4)	(26,777)	(26,781)
Net cash provided by (used in) non-capital financing activities	4	120,356	(4)	(26,777)	93,579
<b>Cash flows from investing activities</b>					
Interest income	37,983	565	-	-	38,548
Net increase (decrease) in cash and pooled investments	77,674	(1,734)	(4)	(25,764)	50,172
Cash and pooled investments, beginning of year	713,290	30,022	4	25,764	769,080
<b>Cash and pooled investments, end of year</b>	<u>\$ 790,964</u>	<u>\$ 28,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 819,252</u>
<b>Cash flows from operating activities</b>					
Operating loss	\$ (72,490)	\$ (114,793)	\$ -	\$ (1,660)	\$ (188,943)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:					
Depreciation	105,616	-	-	-	105,616
(Increase) decrease in:					
Interest receivable	70	(246)	-	273	97
Prepays	-	(10,314)	-	-	(10,314)
Deposits	-	-	-	2,400	2,400
Due from other funds	26,502	-	-	-	26,502
Accounts payable	(20,475)	(4,767)	-	-	(25,242)
Accrued wages	464	7,465	-	-	7,929
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 39,687</u>	<u>\$ (122,655)</u>	<u>\$ -</u>	<u>\$ 1,013</u>	<u>\$ (81,955)</u>

**Noncash transactions**

Capital assets in the amount of \$296,035 were transferred from the Fire Equipment Fund into the Motor Pool Fund. This transaction did not involve cash.

## **FIDUCIARY FUNDS**

**CITY OF HUDSONVILLE**  
**Combining Statement of Assets and Liabilities**  
**Agency Funds**  
**June 30, 2007**

	<u>Trust and Agency</u>	<u>Payroll</u>	<u>Totals</u>
<b>Assets</b>			
Cash and pooled investments	\$ 7,485	\$ 2,227	\$ 9,712
Accounts receivable	4,852	-	4,852
Due from other governments	<u>71,436</u>	<u>-</u>	<u>71,436</u>
 Total assets	 <u><u>\$ 83,773</u></u>	 <u><u>\$ 2,227</u></u>	 <u><u>\$ 86,000</u></u>
<b>Liabilities</b>			
Accounts payable	<u><u>\$ 83,773</u></u>	<u><u>\$ 2,227</u></u>	<u><u>\$ 86,000</u></u>

**CITY OF HUDSONVILLE**  
**Combining Statement of Changes in Assets and Liabilities**  
**All Agency Funds**  
**For the Year Ended June 30, 2007**

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
<b>Trust and Agency Fund</b>				
<b>Assets</b>				
Cash and pooled investments	\$ 175,474	\$ 9,572,568	\$ 9,740,557	\$ 7,485
Accounts receivable	-	4,852	-	4,852
Due from other governmental units	-	71,436	-	71,436
	<u>\$ 175,474</u>	<u>\$ 9,648,856</u>	<u>\$ 9,740,557</u>	<u>\$ 83,773</u>
<b>Liabilities</b>				
Accounts payable	<u>\$ 175,474</u>	<u>\$ 9,648,856</u>	<u>\$ 9,740,557</u>	<u>\$ 83,773</u>
<b>Payroll Fund</b>				
<b>Assets</b>				
Cash and pooled investments	<u>\$ 2,834</u>	<u>\$ 1,201,386</u>	<u>\$ 1,201,993</u>	<u>\$ 2,227</u>
<b>Liabilities</b>				
Accounts payable	<u>\$ 2,834</u>	<u>\$ 1,201,386</u>	<u>\$ 1,201,993</u>	<u>\$ 2,227</u>
<b>Totals - All Agency Funds</b>				
<b>Assets</b>				
Cash and pooled investments	\$ 178,308	\$ 10,773,954	\$ 10,942,550	\$ 9,712
Accounts receivable	-	4,852	-	4,852
Due from other governmental units	-	71,436	-	71,436
	<u>\$ 178,308</u>	<u>\$ 10,850,242</u>	<u>\$ 10,942,550</u>	<u>\$ 86,000</u>
<b>Liabilities</b>				
Accounts payable	<u>\$ 178,308</u>	<u>\$ 10,850,242</u>	<u>\$ 10,942,550</u>	<u>\$ 86,000</u>

## **COMPONENT UNITS**

**CITY OF HUDSONVILLE**  
**Balance Sheet / Statement of Net Assets**  
**Tax Increment Finance Authority**  
**June 30, 2007**

	<u>General Operating Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and pooled investments	\$ 1,221,625	-	\$ 1,221,625
Accrued interest receivable	12,057	-	12,057
	<u>1,233,682</u>	<u>-</u>	<u>1,233,682</u>
<b>Liabilities</b>			
Accrued interest	\$ -	16,610	16,610
Noncurrent liabilities:			
Due within one year	-	215,000	215,000
Bonds payable, net of current portion	-	1,090,000	1,090,000
	<u>-</u>	<u>1,321,610</u>	<u>1,321,610</u>
<b>Fund balance</b>			
Undesignated	1,233,682	(1,233,682)	-
	<u>1,233,682</u>		
<b>Net assets (deficit)</b>			
Unrestricted		<u>\$ (87,928)</u>	<u>\$ (87,928)</u>

**CITY OF HUDSONVILLE**  
**Statement of Activities / Revenues, Expenditures**  
**and Changes in Fund Balance / Net Assets**  
**Tax Increment Finance Authority**  
**For the Year Ended June 30, 2007**

	<b>General Operating Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenue</b>			
Taxes	\$ 531,044	\$ -	\$ 531,044
Interest	61,622	-	61,622
	<u>592,666</u>	<u>-</u>	<u>592,666</u>
<b>Expenditures/expenses</b>			
Debt service:			
Principal	185,000	(185,000)	-
Interest and fiscal charges	92,647	486	93,133
Miscellaneous	526	-	526
	<u>278,173</u>	<u>(184,514)</u>	<u>93,659</u>
Change in fund balance / net assets	314,493	184,514	499,007
Fund balance / net assets (deficit), beginning of year	<u>919,189</u>	<u>(1,506,124)</u>	<u>(586,935)</u>
<b>Fund balance / net assets (deficit), end of year</b>	<u><u>\$ 1,233,682</u></u>	<u><u>\$ (1,321,610)</u></u>	<u><u>\$ (87,928)</u></u>

**CITY OF HUDSONVILLE**  
**Balance Sheet/Statement of Net Assets**  
**Local Development Finance Authority**  
**June 30, 2007**

	<u>General Operating Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and pooled investments	\$ 81,800	\$ -	\$ 81,800
Accrued interest receivable	<u>807</u>	<u>-</u>	<u>807</u>
<b>Total assets</b>	<u><u>\$ 82,607</u></u>	<u>-</u>	<u>82,607</u>
<b>Liabilities</b>			
Accounts payable	\$ -	-	-
<b>Fund balance</b>			
Undesignated	<u>82,607</u>	<u>(82,607)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 82,607</u></u>		
<b>Net assets</b>			
Unrestricted		<u><u>\$ 82,607</u></u>	<u><u>\$ 82,607</u></u>



**CITY OF HUDSONVILLE**  
**Statement of Activities / Revenues, Expenditures**  
**and Changes in Fund Balance / Net Assets**  
**Local Development Finance Authority**  
**For the Year Ended June 30, 2007**

	<b>General Operating Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenue</b>			
Taxes	\$ 61,446	\$ -	\$ 61,446
Interest	3,797	-	3,797
Total revenue	65,243	-	65,243
<b>Expenditures / expenses</b>			
Miscellaneous expense	67,883	-	67,883
Debt service:			
Interest and fiscal charges	-	(2,346)	(2,346)
Total expenditures	67,883	(2,346)	65,537
Change in fund balance / net assets	(2,640)	2,346	(294)
Fund balance / net assets (deficit), beginning of year	85,247	(2,346)	82,901
<b>Fund balance / net assets, end of year</b>	<b>\$ 82,607</b>	<b>\$ -</b>	<b>\$ 82,607</b>

**CITY OF HUDSONVILLE**  
**Balance Sheet/Statement of Net Assets**  
**Downtown Development Authority**  
**June 30, 2007**

	<u>General Operating Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and pooled investments	\$ 22,567	\$ -	\$ 22,567
Accrued interest receivable	<u>222</u>	<u>-</u>	<u>222</u>
<b>Total assets</b>	<u><u>\$ 22,789</u></u>	<u>-</u>	<u>22,789</u>
<b>Liabilities</b>			
Accounts payable	\$ 123	-	123
<b>Fund balance</b>			
Undesignated	<u>22,666</u>	<u>(22,666)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 22,789</u></u>		
<b>Net assets</b>			
Unrestricted		<u><u>\$ 22,666</u></u>	<u><u>\$ 22,666</u></u>

**CITY OF HUDSONVILLE**  
**Statement of Activities/Revenues, Expenditures**  
**and Changes in Fund Balance / Net Assets**  
**Downtown Development Authority**  
**For the Year Ended June 30, 2007**

	<b>General Operating Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenue</b>			
Taxes	\$ 15,186	\$ -	\$ 15,186
Interest	1,372	-	1,372
Miscellaneous	2,314	-	2,314
	<hr/>	<hr/>	<hr/>
Total revenue	18,872	-	18,872
	<hr/>	<hr/>	<hr/>
<b>Expenditures / expenses</b>			
Capital outlay	13,068	-	13,068
Miscellaneous	14,850	-	14,850
	<hr/>	<hr/>	<hr/>
Total expenditures / expenses	27,918	-	27,918
	<hr/>	<hr/>	<hr/>
Change in fund balance / net assets	(9,046)	-	(9,046)
	<hr/>	<hr/>	<hr/>
Fund balance / net assets, beginning of year	31,712	-	31,712
	<hr/>	<hr/>	<hr/>
<b>Fund balance / net assets, end of year</b>	<u>\$ 22,666</u>	<u>\$ -</u>	<u>\$ 22,666</u>

## **SCHEDULE OF INDEBTEDNESS**

# CITY OF HUDSONVILLE

## Schedule of Indebtedness

June 30, 2007

	Interest Rates	Interest Dates	Issue Date	Final Maturity Date	Principal Payment	
					Date	Amount
Governmental Activities						
Hudsonville Building Authority Refunding Bonds	4.1 - 5.35 %	4/1,10/1	1997	2018	10/01/2007	\$ 230,000
					10/01/2008	250,000
					10/01/2009	275,000
					10/01/2010	300,000
					10/01/2011	325,000
					10/01/2012	350,000
					10/01/2013	385,000
					10/01/2014	420,000
					10/01/2015	425,000
					10/01/2016	430,000
					10/01/2017	355,000
	3,745,000					
1999 Public Improvement Bonds	3.95 - 5%	4/1,10/1	1999	2014	04/01/2008	15,000
					04/01/2009	15,000
					04/01/2010	15,000
					04/01/2011	15,000
					04/01/2012	15,000
					04/01/2013	15,000
					04/01/2014	20,000
	110,000					
1999 Special Assessment Bonds	4.75 - 5%	4/1,10/1	1999	2014	04/01/2008	15,000
					04/01/2009	15,000
					04/01/2010	15,000
					04/01/2011	15,000
					04/01/2012	10,000
					04/01/2013	10,000
					04/01/2014	10,000
	90,000					
2001 Michigan Transportation Fund Bonds	4.25 - 7.25%	5/1,11/1	2001	2011	05/01/2008	60,000
					05/01/2009	60,000
					05/01/2010	65,000
					05/01/2011	65,000
						250,000

(Continued)

# CITY OF HUDSONVILLE

## Schedule of Indebtedness

June 30, 2007

	Interest Rates	Interest Dates	Issue Date	Final Maturity Date	Principal Payment	
					Date	Amount
2001 Installment Purchase Contract	3.97%	4/1, 10/1	2001	2011	04/01/2008	\$ 73,623
					04/01/2009	76,545
					04/01/2010	79,584
					04/01/2011	82,744
						<u>312,496</u>
Total governmental activities						<u><u>\$ 4,507,496</u></u>
<b>Business-type Activities</b>						
1999 Water Supply and Sewer Disposal System Revenue Bonds	4 - 5.2%	4/1,10/1	1999	2019	04/01/2008	35,000
					04/01/2009	40,000
					04/01/2010	40,000
					04/01/2011	45,000
					04/01/2012	45,000
					04/01/2013	50,000
					04/01/2014	45,000
					04/01/2015	50,000
					04/01/2016	50,000
					04/01/2017	55,000
					04/01/2018	60,000
					04/01/2019	60,000
						<u>575,000</u>
1998 Drinking Water Revolving Fund	2.5%	4/1,10/1	1998	2019	04/01/2008	25,000
					04/01/2009	25,000
					04/01/2010	25,000
					04/01/2011	25,000
					04/01/2012	25,000
					04/01/2013	25,000
					04/01/2014	25,000
					04/01/2015	30,000
					04/01/2016	30,000
					04/01/2017	30,000
					04/01/2018	30,000
					04/01/2019	30,000
						<u>325,000</u>

(Continued)

# CITY OF HUDSONVILLE

## Schedule of Indebtedness

June 30, 2007

	Interest Rates	Interest Dates	Issue Date	Final Maturity Date	Principal Payment	
					Date	Amount
Business-type Activities (continued)						
Ottawa County Water Supply System Bonds	4.0-5.0%	2/1, 8/1	2007	2032	08/01/2007	\$ -
					08/01/2008	-
					08/01/2009	-
					08/01/2010	7,300
					08/01/2011	7,600
					08/01/2012	7,650
					08/01/2013	7,800
					08/01/2014	7,900
					08/01/2015	7,900
					08/01/2016	11,050
					08/01/2017	11,150
					08/01/2018	11,200
					08/01/2019	11,300
					08/01/2020	11,400
					08/01/2021	11,700
					08/01/2022	11,950
					08/01/2023	20,350
					08/01/2024	21,350
					08/01/2025	22,400
					08/01/2026	23,550
					08/01/2027	24,700
					08/01/2028	25,950
					08/01/2029	27,250
					08/01/2030	28,600
					08/01/2031	30,050
					08/01/2032	31,350
						381,450
Net premium / discount						5,876
Total business-type activities						\$ 1,287,326
Component Unit - Tax Increment Development Authority						
1991 Downtown Development Bonds	5.5 - 7%	12/1, 6/1	1991	2010	06/01/2008	\$ 100,000
					06/01/2009	125,000
					06/01/2010	125,000
						350,000
General Obligation Limited Tax Development						
Bonds 1994 Series	5.5 - 8.5%	4/1,10/1	1994	2014	04/01/2008	115,000
					04/01/2009	100,000
					04/01/2010	100,000
					04/01/2011	160,000
					04/01/2012	160,000
					04/01/2013	160,000
					04/01/2014	160,000
						955,000
Total component unit						\$ 1,305,000

**INTERNAL CONTROL  
AND  
COMPLIANCE**





**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

October 26, 2007

Honorable Mayor and  
Members of the City Council  
Hudsonville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hudsonville, Michigan, as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Hudsonville, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hudsonville, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudsonville, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

## **Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
<b>Cause:</b>	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
<b>Effect:</b>	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
<b>View of Responsible Officials:</b>	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

## **Finding 2007-2 – Independent Review of Journal Entries**

<b>Criteria:</b>	Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the City's records in a way that bypasses normal internal controls. Accordingly, the City should have a system in place to ensure that all journal entries and similar adjustments made to the City's accounting records are reviewed and approved by an appropriate member of management independent of the preparer.
<b>Condition:</b>	The City's policies and procedures in place during the fiscal year under audit did not require any independent review or approval of journal entries made by members of senior management.
<b>Cause:</b>	This condition is the result of staffing limitations, and management not initially recognizing the importance of establishing such controls.

### **Finding 2007-2 – Independent Review of Journal Entries (Continued)**

<b>Effect:</b>	While we are not aware of any actual misstatements caused by this condition, the City was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected or prevented.
<b>Recommendation:</b>	We recommend that the City establish and adhere to a policy requiring an independent administrator to review and approve all journal entries. Such approval should be attached to a copy of the journal entry and filed along with appropriate supporting documentation.
<b>View of Responsible Officials:</b>	Subsequent to year end, the City has implemented a new policy that will allow for independent review and approval of all journal entries. The City Manager will see all journal entries, and the City Commission will approve any budget amendments.

### **Finding 2007-3 – Material Audit Adjustments**

<b>Criteria:</b>	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
<b>Condition:</b>	During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. These adjustments included recording accounts receivable for utilities services earned but not yet billed, properly accruing state revenue sharing payments, and recording accrued interest receivable on certificates of deposit. In addition, we proposed correcting entries to properly record the closing of one fund into another, and for recording proceeds from sale of capital assets.
<b>Cause:</b>	This condition was the result of various oversights by management in reconciling the general ledger and closing out the fiscal year.
<b>Effect:</b>	As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.
<b>Recommendation:</b>	We recommend that the City reconcile all general ledgers to subsidiary detail on a monthly basis in order to have a more accurate financial picture throughout the year.
<b>View of Responsible Officials:</b>	We had a new Finance Director/Treasurer this year and did not get that far in all of her work before you were scheduled to come. We will be having another new Finance Director next year and I hope that we can get this accomplished next year before the audit. Once the new Finance Director is acclimated to the job, things should run smoother.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2007-3 to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hudsonville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Hudsonville, Michigan in a separate letter dated October 26, 2007.

The City of Hudsonville's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hudsonville's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

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October 26, 2007

To the City Council of the  
City of Hudsonville  
Hudsonville, Michigan

We have audited the financial statements of the City of Hudsonville for the year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated June 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Hudsonville. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Hudsonville's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Hudsonville are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Hudsonville during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the allowance for uncollectible receivables is based on past experience and future expectation for collection of various account balances.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Hudsonville's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed certain journal entries, all of which were recorded by management, which in our judgment, had a significant effect on the City of Hudsonville's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Hudsonville’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## **City of Hudsonville, Michigan Comments and Recommendations For the Year Ended June 30, 2007**

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In planning and performing our audit of the financial statements of the City of Hudsonville as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

### **Other Matters**

#### **Availability of Subsidiary Ledgers**

During our audit, we requested a subsidiary ledger for the utility billings receivable. This is a point-in-time report that should have been generated at year-end. Due to an employee oversight, this report was not run and therefore was not available for our audit. We recommend that the City generate such a report each month and reconcile it to the general ledger.

#### **Invoicing by Other Departments**

We noted during our audit that some City departments are preparing invoices and collecting on these invoices directly. All invoices generated by departments should be forwarded to the Treasurer for matching against subsequent collections. The invoices should direct payment to the Treasurer as opposed to the department itself. We recommend that the City implement an appropriate procedure to ensure that all collections are made through the Treasurer.



**City of Hudsonville, Michigan  
Comments and Recommendations  
For the Year Ended June 30, 2007**

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**Independent Review of Expense Reimbursements**

During our review of employee expense reimbursements, we noted three instances in which the reimbursement was not subject to independent review and approval by another employee. We recommend that the City implement a process whereby all employee reimbursements are reviewed and signed by an appropriate supervisor or other member of senior management.

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